Michigan Municipal Electric Association

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April 25, 2013

John D. Quackenbucsh
Chairman
Michigan Public Service Commission

Steve Bakkal
Director
Michigan Energy Office

Re: Readying Michigan to Make Good Energy Decisions

Dear Gentlemen:

The Michigan Municipal Electric Association (MMEA) is Michigan's trade group for municipally owned electric utilities. The 41 communities in MMEA own and operate their own electric utilities provided for approximately 8% of Michigan's total electric retail sales in 2011.

Cities or villages with municipal electric systems provide electric service to their residents, just as communities commonly provide water and sewer service. As units of local government, municipal electric systems are non-profit, community owned and operated, and regulated directly by the community they serve through elected and/or appointed officials. As such, every citizen is an owner of the utility - having the opportunity to have a direct say in decisions that affect rates, service, and policy.

The benefits produced by public power stay in the local community – whether in the form of lower rates, increased electric reliability, and financial and non-financial contributions made to the community. Nearly all MMEA members have been in existence for over 100 years.

MMEA is appreciative of the opportunity to participate in the February 14, 2013 public forum hosted by yourselves on behalf of Governor Snyder, who charged you with this responsibility during his Energy & Environment address on November 28, 2012.

In addition to the public forums, a website has been established at www.Michigan.gov/energy for the purpose of collecting information on Michigan's Energy Future. Titled *Readying Michigan to Make Good Energy Decisions* the questions focus on three main areas: electric choice, renewable energy, and energy efficiency.

The MMEA Board of Directors was given the courtesy of reviewing answers presented by a utility coalition made up primarily of DTE Energy, Consumers Energy, and members of the Michigan Electric and Gas Association (MEGA). MMEA appreciates this gesture, and would like to recognize and thank the utility coalition for the time and effort put into preparing their responses.

Where the utility coalition has provided factual information, MMEA finds the information useful, and to the best of our knowledge accurate.

Instead of joining the coalition in their response, MMEA thought it would be best to provide you with our thoughts and concerns regarding the three main areas of interest: electric choice, energy efficiency, and renewable energy.

Electric Choice

In 2006[1] and 2007[2], MMEA and Protect Michigan[3] jointly retained Public Sector Consultants[4] for the purposes of conducting studies that focused on the market structure for electricity in Michigan. While the facts are out-dated, MMEA believes that much of the information related to problems associated with a deregulated market is still relevant today.

In reviewing the 26 questions related to electric choice, MMEA believes that the answer to question #7 put forth by the utility coalition best represents the concerns of our members. Following is Electric Choice Question #7 and the response of the utility coalition supported by MMEA.

> Electric Choice Question 7: What has been the experience of other states in terms of meeting capacity needs under various market regimes (i.e. fully regulated, partially restructured, and restructured)?
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> > Regulated models support a long-term investment planning process that ensures capacity is available for future reliability at reasonable cost-of-service and that the overall generation portfolio provides for fuel diversity and other needs such as environmental protection.
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> > Electricity is fundamentally different from most other industries and products and its unique characteristics require the electric system to have a margin of safety to ensure reliability. The reliability of the electric system is a public good that benefits everyone by supporting a strong and stable economy, protecting health and safety, and providing other intangible benefits.
> >
> > Public goods tend to be under-produced and under-invested in under free market conditions, producing market inefficiency. Economic theory supports government regulation to ensure sufficient production of a public good such as electric reliability. Without sufficient investment in reliability, we risk facing brown- or black-outs, with potentially drastic societal and personal consequences.
> >
> > The full extent of the challenges of meeting capacity needs under deregulation has not yet been experienced. The country has had an oversupply of generation and reductions in load due to recession. These conditions have masked the difficulty of building new generation under a deregulated model. This challenge will become more apparent as we try to invest in new generation in the future.

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[1] Electricity Restructuring in Michigan: The Effects to Date of Public Act 141 and Potential Future Challenges
[2] Market Structures and the 21st Century Energy Plan
[3] Protect Michigan is a 100,000-member strong coalition of labor organization members, business leaders, and energy industry experts, formed during the 1990s to educate Michigan citizens about electric utility deregulation.
[4] Public Sector Consultants Inc. is a private Michigan corporation providing policy research in the areas of health, education, economics, the environment, and technology; survey research; program evaluation; and strategic planning.